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SUBJECT: US, PORTUGAL RESOLVE LAJES WAGE DISPUTE

REF: LISBON 254

¶1. (SBU) On July 11, 2009 Deputy Secretary of State James Steinberg and Portuguese Foreign Minister Luis Amado signed agreements for a new wage increase procedure for Portuguese employees at Lajes Air Base in the Azores, resolving one of our most difficult bilateral issues. Although the economic impact of the change is negligible compared to the annual costs of U.S. activity at the base, bilateral disagreement over the issue had become increasingly contentious over the last three years and was overshadowing our otherwise harmonious and productive bilateral military and scientific cooperation.

¶2. (SBU) Annual salary increases for local workers subject to the work regulation will now be increased by either the salary increase of Government of Portugal civil service employees or the base pay increase of U.S. Department of Defense (DOD) General Schedule civilian employees, whichever is greater. The new procedure replaces calculation of local worker raises based on results of an annual wage survey, not to exceed the U.S. DOD or Portuguese civil service increase. Despite 65 ABW compliance with the raise calculation formula as defined by the work regulation, the Portuguese disputed the calculated salary increases for 2006 and 2007 because they were capped below the wage survey results, and over the past two years this disagreement came to dominate discussion at the biannual meetings of the U.S.-Portugal Bilateral Commission.

¶3. (SBU) The signing of the agreements is an important step in resolving what has come to be known as "the Lajes wage dispute," but additional work remains. The recently-signed amendments must be put into effect, which can be done administratively by the 65 ABW but requires legislation to be passed by the Portuguese parliament. Additionally, DOD has agreed to fund the "shortfalls" claimed by the Portuguese for 2006 and 2007, and this funding must be authorized, appropriated, and disbursed. Congressman Barney Frank (D-MA) is sponsoring necessary funding language in House authorization and appropriations bills. Provided the authorization and appropriation are passed, the funds must be disbursed to the Portuguese before the end of FY2010.

¶4. (SBU) Comment: Over the past two years the angst generated by this wage dispute had grown completely out of proportion related to the money in question, so this agreement is warmly welcomed by all parties and eliminates perhaps the most troublesome issue between the U.S. and one of our oldest allies. End comment.

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